NEWS FROM

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LEVIN, CONRAD INTRODUCE CUT TAX LOOPHOLES ACT

WASHINGTON – Two Senate committee chairmen introduced legislation today to help reduce the budget deficit and pay for important priorities by closing tax loopholes.

Sens. Carl Levin, D-Mich., chairman of the Senate Armed Services Committee and the Senate Permanent Subcommittee on Investigations, and Kent Conrad, D-N.D., chairman of the Senate Budget Committee, introduced the Cut Unjustified Tax Loopholes Act, or CUT Loopholes Act. The bill, S.2075, would crack down on offshore tax abuses, close tax loopholes that encourage corporations to move jobs offshore and end a corporate tax loophole that allows corporations to claim a stock option tax deduction that is greater than the stock option expense shown on their books. A summary of the bill is available at levin.senate.gov.

Based on estimates from the Joint Committee on Taxation and the Office of Management & Budget, the CUT Loopholes Act would yield at least $155 billion in deficit reduction over 10 years. That is more than enough to cover the $100 billion cost of a full-year extension of the payroll tax cut, and could contribute to the kind of balanced deficit reduction agreement that the nation needs.

"With federal tax revenue at its lowest level in decades and economists warning that more draconian budget cuts could damage the recovery, it is clear that we can't achieve significant deficit reduction and meet important priorities by focusing on spending cuts alone," Levin said. "Many in Congress have refused to consider revenue measures to meet our budget challenges, but there should be bipartisan support for closing these indefensible tax loopholes."

"The CUT Loopholes Act is a win-win as it promotes tax fairness and it will help reduce the budget deficit," said Conrad. "This legislation identifies a series of steps we can take now to end egregious tax loopholes and offshore tax abuses. The revenue raised by cutting these tax loopholes will reduce the deficit and help pay for pressing domestic needs, such as an extension of the payroll tax cut. I commend Senator Levin and his Permanent Subcommittee on Investigations for their excellent work identifying and seeking to change unjust tax policies."

The bill would take steps to close offshore tax havens identified by the Permanent Subcommittee on Investigations. This portion of the bill is based primarily on the Stop Tax Haven

Abuse Act, S. 1346, authored by Levin and cosponsored by Conrad and six others. President Obama, as a senator, supported a similar measure. Among other measures, the bill would:

- Give Treasury authority to take tough new actions to combat tax haven banks and tax haven jurisdictions that help U.S. clients hide assets and dodge U.S. taxes.
- Stop offshore corporations that are managed from the United States from claiming foreign status and thereby dodging taxes on their non-U.S. income.
- Eliminate tax incentives for moving U.S. jobs offshore and transferring intellectual property offshore.
- Establish in law the presumption that, unless a taxpayer proves otherwise, an offshore corporation that is formed by, receives assets from or benefits a U.S. taxpayer is considered under the control of that taxpayer for U.S. tax purposes.

Based on estimates from the Joint Committee on Taxation and the Office of Management and Budget, the offshore tax provisions of the bill would reduce the deficit by at least $130 billion over 10 years.

The second major focus of the bill is closing a corporate tax loophole that provides a tax subsidy to corporations that compensate executives using stock options. Under current law, corporations are allowed to take a larger income tax deduction for stock option expenses than is recorded on their financial books. Between 2005 and 2009, this loophole allowed U.S. corporations to take between $12 billion and $61 billion annually in excess tax deductions.

The bill would:

- Prohibit corporations from taking a larger income tax deduction for stock-option grants than the expense shown on their books.
- Preserve current tax treatment for individuals who receive stock options and for incentive stock options commonly used by start-up companies.
- Apply to stock options the same $1 million overall limit on corporate tax deductions for executive pay that applies to other forms of compensation.

This portion of the bill is based primarily on the Ending Excessive Corporate Deductions for Stock Options Act, S. 1375, authored by Levin and cosponsored by Sens. Sherrod Brown, Claire McCaskill and Sheldon Whitehouse. The Joint Committee on Taxation has estimated that these provisions would reduce the deficit by $25 billion over 10 years.

“We can’t afford to use taxpayer dollars to subsidize offshore schemes and loopholes,” said Levin. “Closing down offshore tax havens that tax dodgers use to get out of paying their fair share is not only the right thing to do, it can help us pay our bills while boosting the economy and reducing the deficit. The CUT Loopholes Act offers a way to provide additional revenue that should get bipartisan support.”

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